Greater China — Week in Review

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Highlights: still mixed picture

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The latest inflation and credit data still showed the sluggish domestic demand despite initial signs of recovery. China's CPI moderated to 0.1% yoy in March from 0.7% yoy in February. The decline in non-food prices was more pronounced than the usual seasonal pattern, dropping by 0.5% month-on-month.

This unexpected decline in non-food CPI was primarily influenced by two key factors. Firstly, travel-related costs experienced a sharp 14.2% month-on-month decrease in March, following a 13.1% surge in February during the Lunar New Year holiday period. Additionally, prices for durable goods softened more than anticipated, with home appliances and transportation equipment prices falling by 0.3% and 0.7% month-on-month, respectively. The intensified competition among car manufacturers led to price reductions in transportation equipment. Looking ahead, the trajectory of CPI is expected to be influenced significantly by changes in durable goods prices.

On credit data, China's new Yuan loans increased by 3.09 trillion yuan in March, indicating a reduction of 800 billion compared to March 2023. Notably, medium to long-term loans to both corporate and household sectors experienced declines compared to the same period in previous year, reflecting ongoing weakness in the real estate market and cautious sentiment in the corporate sector.

Further signaling caution, China's M1 growth decelerated to 1.1% in March from 1.2% in February, indicating that corporates remained hesitant to increase investments in the near term.

However, there are positive indicators as well. The net increase in household deposits in the first quarter was 900 billion less than that in the same period in 2023, aligning with improving consumer confidence observed through the rebound in per capita spending during the holiday season. Additionally, despite constraints, the Chinese government escalated spending in the first quarter, with government deposits falling by 285.5 billion yuan. This increase in government spending aims to counterbalance the weak corporate investment trend.

Nevertheless, the continued weakness in corporate sector activities suggests a need for further monetary policy easing.

China's exports and imports surprised to the downside in March. China's exports in the first quarter of 2024 rose by 1.5% year-on-year, rebounding from a 4.6% decline in 2023, aligning with the narrative of a global trade recovery in 2024. As such, the larger-than-expected decline in total trade growth in March may have been influenced by base effects.

ASEAN maintained its position as China's largest trading partner in the first quarter, with its share rising to 15.7% from 15% in 2023. Conversely, the share of China's exports to the US decreased to 10.5%, marking the lowest level since the onset of the COVID-19 pandemic.

Moreover, China's trade surplus for the first quarter reached $183.7 billion, highest reading ever recorded for the first quarter, underscoring the resilience of external demand.

For this week, market will watch for the first quarter GDP due on Tuesday as the resilient external demand may help lift the GDP growth in the first quarter.

Despite large goods trade surplus in the first quarter, RMB remained weak. The recent depreciation trend among major Asian currencies, notably exemplified by the South Korean won's nearly 2% decline and the Japanese Yen’s 1.3% depreciation since April poses a challenge for China’s central bank.

With the RMB nearing the 2% trading band in the spot market, the PBOC's ability to stabilize its value through the daily fixing rate faces constraints. The current strength of the US dollar exacerbates this dilemma. Allowing the fixing rate to follow market dynamics risks triggering speculation on RMB depreciation. Conversely, maintaining a stable fixing rate amid US dollar appreciation could lead to passive RMB appreciation against its currency basket, as evidenced by a recent surge in the RMB index last week. Furthermore, nearing the 2% trading band also prompts market estimation of China's defense costs, potentially inducing negative feedback on the RMB. Should the USD/JPY break 155, whether the PBOC can sustain the RMB's fixing rate below 7.10 emerges as a focal point of scrutiny.

The "Several Opinions on Strengthening Supervision, Preventing Risks, and Promoting the High-Quality Development of the Capital Market," issued by the State Council last week. The new regulations underscore the people-oriented nature of the capital market, prioritizing the protection of investors' rights, particularly those of small and medium-sized investors.

Macau’s government is set to remove all housing cooling measures which were introduced during periods of market exuberance since 2010. These measures include special stamp duties (for all non-resident buyers, properties resold within 24 months and buyers with at least two properties), stress test and 70% upper limit on mortgage-to-value ratio.

By the removal of cooling measures, the Macau government hopes to rejuvenate the housing market. However, the government will continue to employ other supply side measures in order to maintain the stability of the housing market, including adjusting the supply of public housing and land.

Housing market sentiment remained fragile in the face of high mortgage rate and growing uncertainties around global macroeconomic outlook. Macau’s home price slid further in the first two months this year, the housing price index fell by 1.9% cumulatively. Meanwhile, trading activities remained at a subdued level.

Key events	
Facts	**OCBC Opinions**
▪ The "Several Opinions on Strengthening Supervision, Preventing Risks, and Promoting the High-Quality Development of the Capital Market," issued by the State Council on April 12, marks the third iteration of the influential "Nine Articles" guiding document in China's capital market development over the past two decades.	▪ This comprehensive framework outlines nine key directions aimed at enhancing investor protection, supervising listed companies, fostering industry institutions, bolstering regulatory capabilities, facilitating the entry of medium and long-term funds, and fortifying governance systems, among other critical aspects. According to CSRC Chairman Wu Qing, the new regulations underscore the people-oriented nature of the capital market, prioritizing the protection of investors' rights, particularly those of small and medium-sized investors. Emphasizing a goal-oriented and problem-focused approach, the regulations aim to address prominent issues revealed by recent stock market volatility, such as institutional mechanisms and regulatory enforcement, with a view to promptly rectifying weaknesses and leveraging strengths to address investor concerns.
▪ The recent depreciation trend among major Asian currencies, notably exemplified by the South Korean won's nearly 2% decline and the Japanese Yen's 1.3% depreciation since April poses a challenge for China's central bank.	▪ With the RMB nearing the 2% trading band in the spot market, the PBOC's ability to stabilize its value through the daily fixing rate faces constraints. The current strength of the US dollar exacerbates this dilemma. Allowing the fixing rate to follow market dynamics risks triggering speculation on RMB depreciation. Conversely, maintaining a stable fixing rate amid US dollar appreciation could lead to passive RMB appreciation against a currency basket, as evidenced by a recent surge in the RMB index last week. Furthermore, nearing the 2% trading band also prompts market estimation of China's defense costs, potentially inducing negative feedback on the RMB. As the USD/JPY approaches 155, whether the PBOC can sustain the RMB's fixing rate below 7.10 emerges as a focal point of scrutiny.
▪ Macau's government is set to remove all housing cooling measures which were introduced during periods of market exuberance since 2010. These measures include special stamp duties (for all non-resident buyers, properties resold within 24 months and buyers with at least two properties), stress test and upper limit on mortgage-to-value ratio.	▪ By the removal of cooling measures, the Macau government hopes to rejuvenate the housing market. However, the government will continue to employ other supply side measures in order to maintain the stability of the housing market, including adjusting the supply of public housing and land. ▪ Housing market sentiment remained fragile in the face of high mortgage rate and growing uncertainties around global macroeconomic outlook. Macau's home price slid further in the first two months this year, the housing price index fell by 1.9% cumulatively. Meanwhile, trading activities remained at a subdued level.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's CPI moderated to 0.1% yoy in March from 0.7% yoy in February.	▪ On sequential basis, CPI fell by 1% mom due to the seasonal pattern. Food prices fell by 3.2% mom as prices normalized after the Lunar New Year holiday surge in February. However, the decline in non-food prices was more pronounced than the usual seasonal pattern, dropping by 0.5% month-on-month. ▪ This unexpected decline in non-food CPI was primarily influenced by two key factors. Firstly, travel-related costs experienced a sharp 14.2% month-on-month decrease in March, following a 13.1% surge in February during the Lunar New Year holiday period. Specifically, airline ticket prices plummeted by 27.4% month-on-month, while transportation rental costs also saw a significant 15.9% decline. These reductions in travel-related expenses accounted for nearly 40% of the sequential decline in CPI. ▪ Additionally, prices for durable goods softened more than anticipated, with home appliances and transportation equipment prices falling by 0.3% and 0.7% month-on-month, respectively. The intensified competition among car manufacturers led to price reductions in transportation equipment. Looking ahead, the trajectory of CPI is expected to be influenced significantly by changes in durable goods prices. ▪ With recent demand-side stimulus initiatives aimed at supporting equipment upgrades and consumer goods trade-ins, there is optimism that these measures will help stabilize prices in the coming months. However, continued monitoring of durable goods prices will be crucial in assessing the future direction of CPI.
▪ In March, China's total social financing saw an increase of 4.87 trillion Yuan, marking a decline of 514.2 billion compared to the same period in March 2023. The growth rate of the outstanding social financing moderated to 8.7% from 9%.	▪ The year-on-year decrease in newly added social financing was primarily driven by a slowdown in on-balance sheet new Yuan loans. New Yuan loans increased by 3.09 trillion yuan in March, indicating a reduction of 800 billion compared to March 2023. Notably, medium to long-term loans to both corporate and household sectors experienced declines compared to the previous year, reflecting ongoing weakness in the real estate market and cautious sentiment in the corporate sector, despite initial signs of recovery. ▪ Further signaling caution, China's M1 decelerated to 1.1% growth in March from 1.2% in February, indicating that corporates remained hesitant to increase investments in the near term. ▪ However, there are positive indicators as well. The net increase in household deposits in the first quarter was 900 billion less than that in the same period in 2023, aligning with improving consumer confidence observed through the rebound in per capita spending during the holiday season. Additionally, despite constraints, the Chinese government escalated spending in the first quarter, with government deposits falling by 285.5 billion yuan. This increase in government spending aims to counterbalance the weak corporate investment trend, potentially providing support for economic growth in the coming months. Nevertheless, the continued weakness in corporate sector activities suggests a need for further monetary policy easing.

▪ In March, China experienced a notable downturn in exports, declining by 7.5% year-on-year, following an unexpected 7.1% growth observed in the first two months of 2024. Similarly, imports decreased by 1.9% year-on-year in March, following a 3.5% gain in the initial two months of the year.	▪ Examining export destinations, the contraction in export growth to major trading partners like ASEAN and Japan narrowed in March, while the downturn in exports to the US and EU widened. Notably, China's exports in the first quarter of 2024 rose by 1.5% year-on-year, rebounding from a 4.6% decline in 2023, aligning with the narrative of a global trade recovery in 2024. As such, the larger-than-expected decline in total trade growth in March may have been influenced by base effects. ▪ Moreover, China's trade surplus for the first quarter reached a high of $183.7 billion, record for the reading of first quarter, underscoring the resilience of external demand. ▪ ASEAN maintained its position as China's largest trading partner in the first quarter, with its share rising to 15.7% from 15% in 2023. Conversely, the share of China's exports to the US decreased to 10.5%, marking the lowest level since the onset of the COVID-19 pandemic. ▪ Furthermore, China's demand for crude oil softened, with imports by volume and value declining by 6.2% and 3.5% year-on-year, respectively. Despite this, China's demand for electronic integrated circuits experienced a significant rebound, with total imports by value increasing by 10% year-on-year in the first quarter, indicating a potential turnaround in the semiconductor cycle.

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